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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/22/07

SPONSOR HAGC LAST UPDATED 2/26/07 HB 1011/HAGCS

SHORT TITLE Chile Production Tax Credits SB \_\_\_\_\_

ANALYST Schardin/Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(1.6)		Recurring	General Fund
	(0.4)		Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates SB 1191

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Agriculture (NMDA)  
 Economic Development Department (EDD)  
 Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of HAGC Substitute

The House Agriculture and Water Resources Committee substituted House Bill 1011 making it a duplicate of Senate Bill 1191. The HAGC substitute amends the Investment Credit Act to redefine manufacturing to include “chile farming” and exempts chile-related manufacturing from the employment requirements of the Act. This would allow the investment tax credit for purchases of chile farming and processing equipment. The investment tax credit allows a credit against CRS taxes— withholding, gross receipts taxes and compensating taxes—up to 85 percent of the combined liability. The credit may be carried forward if the credit exceeds liability and can be refunded under certain circumstances.

The changes apply to qualified equipment purchases on or after January 1, 2007.

## **FISCAL IMPLICATIONS**

Using Department of Agriculture data, the amount of credit likely to be claimed is \$2.0 million. Since HB1011/HAGCS allows the growers and processors to take the credit without a job creation requirement, a higher share of companies will likely claim the credit than is the case with other manufacturers who are subject to the job creation requirements. Part of the impact is on local governments due to the gross receipts share of the combined liability taxes.

The Economic Development Department (EDD) reports that the fiscal impacts are likely to be substantial:

Taxation and Revenue has not determined the amount of the fiscal impact for this facility. However, the impact would probably be substantial as this credit would apply to the purchase of chile farming equipment. New Mexico's chile industry is substantial and there are a number of chile farmers that would purchase new equipment under this new provision who are currently paying compensating and gross receipts taxes. The exemption of the job creation component would limit the increase in revenues to the general fund because the purchase of new equipment would not increase payrolls. Therefore, the fiscal implications are substantial.

According to TRD, representatives of NMSU estimate that about 81.6 thousand tons of chile is harvested in New Mexico each year. About 17.6 thousand tons are dry chile and 64 thousand tons are raw chile. Multiplying these figures by \$100 per ton for dry chile and \$20/ton for raw chile suggests credits will total \$3,040 thousand.

NMSU believes that about 30 percent more chile is processed than harvested each year since New Mexico processors also process chile harvested in Arizona, Texas, and Mexico. Tax credits for chile processors are expected to be 30 percent higher than for harvesting, or \$3,952 thousand. Therefore, total credits due to harvesting and processing are expected to be \$6,992 thousand.

TRD assumes that half of the credits will be claimed against the gross receipts tax and half against withholding tax. Of the 50 percent of credits claimed against gross receipts tax, 60 percent of loss revenue will be to the general fund and the other 40 percent to local governments.

## **SIGNIFICANT ISSUES**

EDD reports that the bill provides an incentive to New Mexico chile producers and processors.

NMDA reports that high production costs, labor shortages, flooding, drought, and other factors have created difficult conditions for New Mexico's chile industry. New Mexico chile industry also faces greater competition from low-cost chile imports from Mexico, Peru, India, and other countries. New Mexico chile growers currently produce over 60 percent of chile sold in the United States.

## **ADMINISTRATIVE IMPACTS**

The bill creates significant administrative impacts for TRD because an estimated 2 thousand taxpayers will claim the credit each year. TRD will develop instructions, publish a new certificate, amend audit procedures, and verify taxpayer eligibility.